

Pensions, Investments
& Advisory Services



Quarterly Investment Update

30th June 2009

A fresh approach to retirement planning



Thinking, **Years Ahead**

1. Active Managed Funds

Fund Performance

Over the second quarter of 2009, the average fund delivered a positive return of 11.3%. Merrion Investment Managers was the best performing manager over the quarter, with a return of 14.8%. AIB Investment Managers delivered the worst performance, of 8.6%, over the three months. Over the first half of 2009, returns are also positive with the average fund having gained 5.5% over this period. In the six months to the end of June, returns ranged from 11.3% (Merrion Investment Managers) to 0.7% (AIB Investment Managers), representing a difference of 10.6% between the best and worst performing managers so far this year. Over the past year the average fund delivered -19.1%, with returns ranging from -13.9% (Canada Life/Setanta) to -23.9% (AIB Investment Managers). The average managed fund return has been an extremely disappointing -9.3% per annum over the past three years. The five year returns to the end of June are also negative, with the average managed fund delivering -0.8% per annum over this period. Irish group pension managed fund returns over the past ten years have been a disappointing 0.1% per annum on average, well below the Irish inflation rate of 3.2% per annum over the same time horizon. Indeed, none of the managers surveyed outperformed inflation over this period, with just over half of the fund managers delivering positive returns.

Fund Returns to 30th June 2009

	Quarter 2 %	Rank	6 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	8.6	11	0.7	11	-23.9	11	-9.5	5	-0.5	5	-1.2	10
Aviva Investors	10.7	7=	4.4	9	-23.8	10	-11.3	10	-2.1	8	-0.6	8
Bank of Ireland Asset	10.7	7=	5.1	7	-18.2	6	-10.3	7	-2.5	11	0.4	4=
Canada Life/Setanta	12.0	3	6.1	4	-13.9	1	-7.3	3	0.2	3=	0.6	3
Eagle Star	10.4	9	5.0	8	-15.4	2	-6.2	1	2.0	1	1.2	2
Friends First/F&C	11.7	4	5.5	5	-19.9	7	-10.4	8=	-1.5	7	-0.7	9
Irish Life Investment	13.7	2	7.0	3	-20.7	8	-9.9	6	-0.8	6	0.4	4=
KBC Asset Management	9.4	10	2.9	10	-23.1	9	-11.7	11	-2.4	9=	-2.0	11
Merrion Investment Managers	14.8	1	11.3	1	-16.3	3	-7.1	2	0.5	2	2.9	1
New Ireland	11.1	5	5.3	6	-17.5	4	-10.4	8=	-2.4	9=	0.4	4=
Standard Life Investments	11.0	6	7.1	2	-17.9	5	-8.2	4	0.2	3=	0.1	7
Average	11.3		5.5		-19.1		-9.3		-0.8		0.1	

Historic One Year Returns (to 30th June)

	2005 %	Rank	2006 %	Rank	2007 %	Rank	2008 %	Rank	2009 %	Rank
AIB Investment Managers	15.5	4	13.5	2=	20.0	1	-18.8	4	-23.9	11
Aviva Investors	13.3	11	13.5	2=	16.8	8	-21.5	6	-23.8	10
Bank of Ireland Asset	14.1	9	7.3	11	14.9	10	-23.2	8	-18.2	6
Canada Life/Setanta	15.7	3	9.9	9	12.3	11	-17.7	1	-13.9	1
Eagle Star	17.6	1	13.4	4	18.9	3=	-17.9	2	-15.4	2
Friends First/F&C	14.2	6=	12.9	5	17.2	6	-23.4	9	-19.9	7
Irish Life Investment Managers	16.5	2	12.4	8	18.9	3=	-22.5	7	-20.7	8
KBC Asset Management	14.2	6=	12.7	6	17.0	7	-23.5	10	-23.1	9
Merrion Investment Managers	13.6	10	12.6	7	17.3	5	-18.3	3	-16.3	3
New Ireland	14.2	6=	7.8	10	15.1	9	-24.3	11	-17.5	4
Standard Life Investments	15.3	5	13.6	1	19.6	2	-21.3	5	-17.9	5
Average	14.9		11.8		17.1		-21.1		-19.1	

Asset Distributions as at 30th June 2009

	AIBIM	Aviva	BIAM	CL/SAM	ES	FF/F&C	ILIM	KBCAM	MIM	NI	SLI	Average
Equities												
- Irish	7.6%	7.2%	6.6%	7.7%	4.0%	7.2%	7.5%	8.4%	7.7%	5.7%	5.7%	6.8%
- UK	10.1%	9.7%	9.6%	6.5%	10.0%	9.8%	12.1%	7.9%	8.2%	9.2%	9.8%	9.4%
- US	16.0%	19.4%	18.5%	29.6%	18.0%	17.4%	14.7%	14.0%	17.0%	17.5%	18.5%	18.2%
- Euro (ex Irl)	14.1%	18.5%	14.9%	12.2%	16.0%	13.3%	17.3%	15.6%	16.1%	14.0%	14.3%	15.1%
- Rest of Europe	3.7%	2.4%	6.8%	3.9%	6.0%	7.0%	2.5%	5.9%	4.4%	7.9%	6.4%	5.2%
- Japan	4.3%	2.6%	4.2%	1.9%	3.0%	4.0%	1.9%	4.5%	4.5%	3.7%	3.1%	3.4%
- Pacific Basin	10.8%	7.7%	9.0%	3.6%	13.0%	10.8%	9.0%	10.5%	8.9%	8.7%	8.0%	9.1%
Total Equity	66.6%	67.5%	69.6%	65.4%	70.0%	69.5%	65.0%	66.8%	66.8%	66.7%	65.8%	67.2%
Fixed Interest	20.1%	19.7%	14.1%	20.3%	26.0%	19.8%	18.3%	19.0%	18.7%	20.5%	26.6%	20.3%
Property	4.7%	6.7%	7.8%	2.4%	0.0%	6.3%	4.4%	6.2%	1.5%	4.7%	3.5%	4.4%
Cash	8.6%	6.1%	2.4%	10.3%	4.0%	4.4%	9.1%	6.4%	13.0%	8.1%	4.1%	7.0%
Alternative Assets	0.0%	0.0%	6.1%	1.6%	0.0%	0.0%	3.2%	1.6%	0.0%	0.0%	0.0%	1.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

At the end of June, the average equity weighting of actively managed balanced funds was 67.2%, up from 63.8% at the end of March. Eagle Star had the highest equity weighting at 70.0% while Irish Life Investment Managers had the lowest at 65.0%. Exposure to Irish equities remains high relative to the size of the Irish market in global terms, averaging 6.8% and ranging from a low of 4.0% (Eagle Star) to a high of 8.4% (KBCAM). This weighting was 19.0% at the start of 2007, but has declined dramatically due to the underperformance of the Irish stock market. The average fixed interest weighting was 20.3%, while the average property weighting was 4.4%.



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2. Market Review

Following on from the gains experienced by equity markets during March, all bourses made strong gains during the second quarter of 2009. Despite mixed economic news and corporate results, investor confidence that the global economy was on the road to recovery improved. However, the equity market rally stalled somewhat during June, as investors grew concerned that the recession was not as close to ending as had been hoped. Euro zone bonds rose 0.4% over the quarter. Despite disappointment in the quantitative easing measures announced by the ECB and concerns over the level of bond issuance by governments attempting to spend their way out of the recession, bonds gained on the back of weak equity markets, benign inflation figures and expectations that interest rates will remain low.

Irish equities were the best performing bourse over the quarter, with a return of 23.7%. Financial stocks soared 192.5% over the quarter on the news, announced in the supplementary budget on April 7th, that the government intended to set up the National Asset Management Agency (NAMA), which would take up to €90 billion of toxic property loans off the balance sheets of the leading banks, in an attempt to strengthen the banks' balance sheets and stimulate lending. However, in June, ratings agency Standard & Poor's reduced Ireland's credit rating for the second time in three months, from AA+ to AA, and assigned a "negative" outlook to the rating. Concerns over the cost of bailing out the banking system were cited as the main reason for the downgrade and outlook.

UK equities posted a 10.1% gain over the quarter in sterling terms (19.7% in euro terms). The Bank of England kept interest rates at the historically low level of 0.5%, having cut interest rates by 4.5% between October 2008 and March 2009. The Bank announced plans to expand their quantitative easing programme, increasing from £75 billion to £125 billion the purchase of government and corporate bonds. The Treasury announced that they are expecting the economy to contract by 3.5% during 2009, and the budget deficit to rise to 12.4% of GDP by the end of the year. It was subsequently confirmed that the economy had contracted by 2.4% in the first quarter, which was a greater decline than had been originally estimated.

US equities returned 16.3% in dollar terms (10.8% for Irish investors) during the second quarter. The economy contracted at an annual rate of 5.7% during the first quarter of 2009, and the Federal Reserve revealed that they had reduced the growth forecasts for the US economy over the next few years. Investors welcomed the results of the government's stress tests of financial companies, and reacted positively to the news that ten banks are now eligible to repay monies given to them under the Troubled Asset Relief Program (TARP), which will mean a \$68 billion boost for the Treasury. The unemployment rate rose to a 25-year high of 9.4% in May, although there were indications that the pace of job cuts may be slowing. The dollar fell to its lowest level this year during the quarter, eroding some of the market's gains for Irish investors, amid investor concerns over the high level of US debt, rising equity markets and higher commodity prices.

The Euro zone region returned 20.3% over the quarter, while the rest of Europe recorded a 17.4% rise. The European Central Bank cut interest rates at their April and May meetings, by 0.25% each time, to an historic low of 1.0%. During May, the Bank also announced quantitative easing measures, involving the purchase of €60 billion of covered bonds. However, this move was not seen as being sufficiently aggressive by the market. In June, the ECB lowered their forecast for the

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region's economy for 2009 and 2010, and subsequently warned that banks in the region could face further write-downs, of up to \$283 billion, over the next two years. In an attempt to unlock credit markets by improving liquidity, the ECB issued €442 billion in one-year loans to Euro zone banks. Over the first quarter of 2009, the Euro zone economy contracted by 2.5%, with Germany's GDP declining by 3.8% over the same period, the largest contraction since reunification.

The Japanese stock market ended the quarter with a return of 20.1% in yen terms (16.4% in euro terms). The announcement of a third economic stimulus package, worth \$154 billion, was welcomed by investors. The package included more loans for small-businesses, support for the unemployed, environmental protection measures and tax cuts. First quarter GDP data showed that the economy shrank by 4.0%, the fastest pace on record, as exports declined dramatically. However, industrial output for April showed the largest monthly increase in 56 years, of 5.2%, while the Bank of Japan upgraded its assessment of the economy in May, and again in June, as exports and industrial production improved.

Markets in the Pacific Basin delivered a return of 21.0% in local currency terms (23.5% for Irish investors). The Chinese government's \$858 billion stimulus package appears to be achieving results already, as the economy expanded by 6.1% in the first quarter of 2009. The country's Manufacturing Purchasing Managers' Index rose sharply in April, moving into expansion territory for the first time in nine months, while investments in factories, property and roads increased by 33% in the first five months of the year and retail sales jumped by over 15% in May. Meanwhile, the Indian stock market recorded its best week since 1992 during May, following a landslide victory for the Congress party, who are expected to bring about much-needed reform. India's economy expanded by 5.8% in the first quarter of 2009, driven by government expenditure and construction. During June, Australian equities rallied on the news that the economy had expanded by 0.4% during the first quarter of 2009, while consumer sentiment also improved.

Market Index Returns to 30th June 2009

Asset Class	3 Months %		6 Months %	
	Local Ccy	Euro	Local Ccy	Euro
Equities				
- Ireland	23.7	23.7	17.5	17.5
- UK	10.1	19.7	-1.3	12.1
- North America	16.3	10.8	4.7	4.2
- Eurozone	20.3	20.3	3.8	3.8
- Rest of Europe	17.4	17.1	8.8	7.4
- Japan	20.1	16.4	9.5	1.9
- Pacific Basin	21.0	23.5	24.1	28.8
Euro Bonds (> 5 Years)	0.4	0.4	0.2	0.2

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3. Other Balanced Managed Funds

Consensus Fund Returns to 30th June 2009

	Quarter 2	Rank	6 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank	10 Years % p.a.	Rank
AIB Investment Managers	10.8	6	4.9	5	-19.3	5	-9.6	4=	-0.9	3=		
Aviva Investors	11.0	5	4.1	6	-19.1	4	-9.8	6	-1.5	5	-0.5	3
Bank of Ireland Asset	11.9	3	5.8	2	-18.8	1	-9.1	1	-0.6	2		
Friends First/F&C	12.8	2	5.9	1	-19.6	6	-9.3	2=	-0.9	3=	-0.3	2
Irish Life Investment	11.3	4	5.4	3	-19.0	3	-9.3	2=	-0.5	1	0.2	1
Standard Life Investments	13.4	1	5.0	4	-18.9	2	-9.6	4=				
Average	11.9		5.2		-19.1		-9.5		-0.9		-0.2	

Multi-Manager Fund Returns to 30th June 2009

	Quarter 2	Rank	6 Months %	Rank	1 Year %	Rank	3 Years % p.a.	Rank	5 Years % p.a.	Rank
AIB Investment Managers	12.4	1	6.9	1	-19.2	2	-9.7	1=	-1.0	2
Irish Life Investment	11.1	3	4.7	3	-19.1	1	-9.7	1=	-0.9	1
Standard Life Investments	11.9	2	5.8	2	-20.9	3	-11.3	3		
Average	11.8		5.8		-19.7		-10.2		-1.0	